

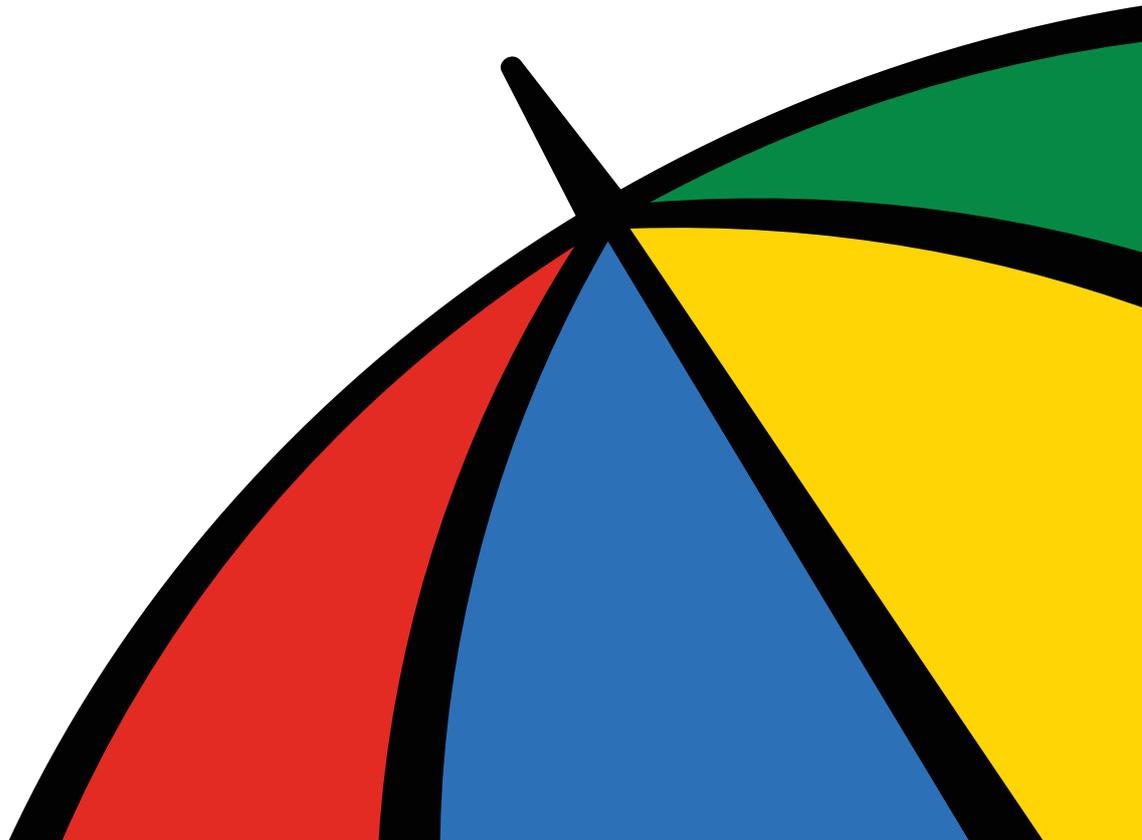
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# Japan Stewardship Code

LGIM's response to Japan's  
stewardship code principles



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# Introduction

At LGIM we take our stewardship responsibilities seriously and devote significant resources to ensuring our clients' assets are protected.

This document sets out the approach to stewardship by Legal & General Investment Management (Holdings) Limited (LGIM(H)) and its subsidiary companies that are in the institutional investment and/or asset management businesses. Any reference to "LGIM" in this document includes LGIM(H) and such subsidiaries.

We are active proponents of the benefits of stewardship codes globally to improve the quality of stewardship and ownership across the markets in which we invest.

As a strong supporter of the Japan Stewardship Code from its inception, we feel it is our duty to be accountable for our clients' assets and ensure that we uphold the highest environmental, social, governance (ESG) and sustainability standards in the global financial market.

Below we demonstrate how LGIM complies with the principles and guidance of the 2020 Japan Stewardship Code. In addition, further examples of our stewardship activities during the 2021 financial year can be found in our [2021 Active Ownership Report](#), and on our [website](#).

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“Stewardship responsibilities refer to the responsibilities of institutional investors to enhance the medium- to long-term investment return for their clients and beneficiaries by improving and fostering the investee companies' corporate value and sustainable growth through constructive engagement, or purposeful dialogue, based on in-depth knowledge on the companies and their business environment and consideration of sustainability (medium- to long-term sustainability including ESG factors) consistent with their investment management strategies.”

Japan Stewardship Code, FSA, 2020

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# Principle 1

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“Institutional investors should have a clear policy on how they fulfil their stewardship responsibilities, and publicly disclose it.”

Japan Stewardship Code, FSA, 2020

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## Stewardship policies

LGIM's policies on corporate governance and responsible investment, voting and conflicts of interest are reviewed on a regular basis, with most policies updated annually. Any substantial changes undergo an internal review and detailed scrutiny, and require the approval of the Investment Stewardship Committee. The committee is chaired by an LGIM independent non-executive director and comprises three further independent non-executive directors, the CEO, the Chief Investment Officer, and the Head of Investment Stewardship and Responsible Investment Integration.

LGIM's Global Corporate Governance and Responsible Investment Principles set out its minimum expectations of investee companies in terms of corporate governance and other ESG and sustainability issues and outline how LGIM exercises its voting, engagement and monitoring activities. As this applies to companies globally, it should be read in conjunction with the region-specific policy for Japan. LGIM has also developed region-specific policies for the UK and North America markets.

Further information on our policies on engagements and voting are outlined under Principles 4 and 5, respectively.

All stewardship policies are publicly disclosed and can be found on LGIM's [website](#).

## Scope of stewardship responsibilities

LGIM's stewardship responsibilities extend to all assets globally, including equities, fixed income and real assets.

For further information on the ESG policies and initiatives undertaken in LGIM's fixed income and real assets businesses, please refer to the annual Active Ownership Report (Principle 6), Engagement Policy (Principle 4), and [Insights publications](#).

## Principle 2

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“Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.”

Japan Stewardship Code, FSA, 2020

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Managing both actual and perceived conflicts is essential to LGIM's activities, so that clients understand their interests are always put first. Additionally, the management of conflicts is important in building long-term relationships with the companies in which LGIM invests.

The Investment Stewardship Conflicts of Interest Policy outlines practical processes in place to identify, manage and mitigate potential conflicts. The policy also details historical case studies to provide further explanation of where such conflicts have arisen in the past, and how LGIM dealt with that risk to act in the best interests of its clients. The policy is available [here](#).

### Identification of conflicts

Our strategies and processes, which include staff training and annual reviews of controls and conflicts, enable the early identification of potential or actual conflicts of interests.

### Mitigation of conflicts

“Chinese walls” ensure the independence of the Investment Stewardship team. The Investment Stewardship team structure mitigates potential internal conflicts. Importantly, the team does not share line management reporting lines with any of the LGIM investment desks, including the active equity or active fixed income teams.

Information on internal resources and team structure is outlined in our response to Principle 7.

### Management of conflicts

LGIM's Investment Stewardship Committee meets quarterly and has explicit responsibility to provide oversight in relation to potential conflicts of interests and contentious corporate governance issues. Please see Principle 1 for information regarding this committee.

The Conflicts of Interest Committee is a committee of LGIM(H). Its purpose is to provide independent oversight of LGIM(H) firms' identification, management and disclosure of conflicts of interest and potential conflicts of interest. The committee is chaired by an LGIM-independent non-executive director.

## **Japan Stewardship Code: LGIM's response to Japan's stewardship code principles**

Where conflicts are identified outside the Investment Stewardship Committee, the five independent non-executive directors of LGIM(H) are available to the Investment Stewardship team for the escalation of how a (potential or actual) conflict should be addressed and to oversee this process.

# Principle 3

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“Institutional investors should monitor investee companies so that they can appropriately fulfil their stewardship responsibilities with an orientation towards sustainable growth of the companies.”

Japan Stewardship Code, FSA, 2020

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## Monitoring of investee companies

LGIM actively monitors investee companies to ensure they are positioned for sustainable growth and in turn are able to create long-term value for LGIM's clients.

LGIM does not rely exclusively on corporate disclosures when monitoring companies. The resources which the Investment Stewardship team draws on include company disclosures, external corporate governance and other ESG scores and networks, concerns raised by proxy voting advisers, collaborative engagement with other shareholders, market news, and meetings with the internal investment teams.

LGIM also monitors companies objectively by using its proprietary and quantitative ESG assessment tools, the LGIM ESG Scores<sup>1</sup> and the Active ESG View<sup>2</sup>, as well as assessing companies against their management of climate risks and opportunities through LGIM's Climate Impact Pledge<sup>3</sup>.

## Tracking engagement outcomes

Engagement activity is recorded in a dedicated data management system to support the Investment Stewardship team's work. This not only provides a clear audit trail of the engagement process, but also allows LGIM to record successes in effecting positive change. The tracking of engagement outcomes assists in the evaluation of LGIM's stewardship approach and performance.

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<sup>1</sup> LGIM's ESG Scores capture minimum standards on environmental, social and governance metrics – as well as companies' overall levels of transparency. These scores are used to help prioritise engagements and for use in index construction across LGIM's Future World ESG-tilted indices. LGIM has applied this tool to score approximately 17,000 global companies. The score uses a limited number of indicators that LGIM believes are universal and are relevant and consistent across sectors globally (see [methodology document](#)). These scores are publicly available on LGIM's [website](#).

<sup>2</sup> The Active ESG View tool goes further than the LGIM ESG Score, incorporating additional granular quantitative and qualitative inputs and assessments in order to provide a full picture of the ESG risks and opportunities embedded within each company. This is used as an essential component of the research and portfolio management process for LGIM's Active Equity and Active Fixed Income teams.

<sup>3</sup> LGIM's Climate Impact Pledge maps some 1,000 companies worldwide, in climate-critical sectors, against key indicators. Using quantitative and qualitative measures, LGIM assesses them under a 'traffic light' system, drawing on independent data providers and in-house climate modelling tools. Companies that fail to demonstrate adequate climate commitments may have voting sanctions applied across LGIM's entire book with investment decisions made within some funds. Resulting scores are publicly available on LGIM's [website](#).

# Principle 4

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“Institutional investors should seek to arrive at an understanding in common with investee companies and work to solve problems through constructive engagement with investee companies.”

Japan Stewardship Code, FSA, 2020

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As a long-term shareholder, LGIM aims to be a trusted adviser to the management and boards of the companies in which it invests on behalf of clients. LGIM's approach to engagements is to have an open dialogue that is constructive and helpful, and also aimed at deepening its knowledge of investee companies.

LGIM's engagement conversations involve high-level strategic discussions on ESG, sustainability and other matters that affect companies' long-term financial returns. LGIM therefore expects engagement to take place with the board chair or independent lead non-executive director.

## Collaboration with other investors

Collaboration with other like-minded investment institutions on specific topics is a key way for LGIM to encourage investee companies to improve their management of ESG issues. Collaborative engagement with other investors may be on topics that are specific to a company or in response to an industry consultation. It should not, however, be confused with consortiums, as each investment house would retain the decision-making power to act in the best interests of its own clients.

## Escalation

Escalation is a vital component in making engagements effective. If constructive engagements fail to result in improved practices, or if LGIM's concerns fail to be addressed, then LGIM will usually escalate the issue.

Escalation can take the form of voting against the company (Principle 5), filing or supporting shareholder-requisitioned resolutions, the use of public pressure, adjustments to capital allocation in certain funds, and engaging with policymakers and regulators. The escalation of engagement can also result in a collaborative initiative, which allows LGIM to forge alliances with other investors on common goals.

## Internal communication

Please see Principle 7 for further information on internal resources and skills.

For more details on LGIM's engagement policy, please refer to [this document](#) on our website.

# Principle 5

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“Institutional investors should have a clear policy on voting and disclosure of voting activity. The policy on voting should not be comprised only of a mechanical checklist: it should be designed to contribute to sustainable growth of investee companies.”

Japan Stewardship Code, FSA, 2020

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## Voting policy

LGIM has put in place a global custom voting policy with specific instructions. These instructions apply to all markets globally and seek to uphold what LGIM considers to be the minimum best-practice standards.

In addition, LGIM has set specific, custom voting policies at an individual market level for those markets in which LGIM adopts a stricter stance. LGIM's voting policy has been developed to reflect the economic, political and cultural differences in corporate governance and other ESG practices.

## Disclosure of voting activity

LGIM discloses country-level aggregate voting records through its annual Active Ownership Report and more granularly at issuer level on the public website. In addition, clients receive quarterly reports on LGIM's voting and engagement activities.

LGIM publishes its voting decisions, including the rationale for each resolution where an instruction has been cast against management. This information is accessible one day after the shareholder meeting, on the following [webpage](#). A link to this webpage is also available on the [LGIM Japan website](#).

LGIM is committed to providing its clients with access to “significant vote” information in alignment with the EU Shareholder Rights Directive II. In addition, LGIM will provide information on significant votes in the format of detailed case studies in its quarterly ESG Impact Report for clients and annual Active Ownership publications.

Additionally, in 2021 LGIM began pre-declaring voting intentions ahead of a company's AGM in a centralised, transparent and easily-accessible format via LGIM's [blog](#). These pre-declarations highlight the companies and resolutions we believe require additional scrutiny by the market, and form part of our escalation strategy under specific engagement topics.

## Proxy voting advisers

Given the scale of LGIM's holdings, LGIM cannot be physically present at every company shareholder meeting to cast these votes. LGIM instead votes by proxy through the Institutional Shareholder Services (ISS) voting platform.

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LGIM's custom voting policy, with specific instructions (details above), ensures that the proxy provider votes in accordance with LGIM's position on ESG issues. All of the decisions are made by LGIM's Investment Stewardship team and in accordance with LGIM's relevant Corporate Governance & Responsible Investment Policy document.

For more details on why and how LGIM uses proxy advisory services please refer to [this document](#).

# Principle 6

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“Institutional investors in principle should report periodically on how they fulfil their stewardship responsibilities, including their voting responsibilities, to their clients and beneficiaries.”

Japan Stewardship Code, FSA, 2020

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## Keeping clients informed

LGIM believes it is important to keep clients informed about ESG matters that may affect their portfolios.

LGIM discloses its stewardship activities through the annual [Active Ownership Report](#), [thought pieces](#) on ESG and engagement-related topics and via [blogs](#) and [podcasts](#). These are all publicly disclosed and can be found on LGIM's website.

For details on how LGIM discloses its voting activity, please refer to Principle 5.

In addition, clients receive quarterly reports on LGIM's stewardship activities carried out during the previous quarter. LGIM also provides trustee education seminars and stakeholder events throughout the year to help clients, investee companies and other market participants better understand current issues and to highlight what LGIM is doing to reduce risks and promote best practices.

# Principle 7

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“To contribute positively to the sustainable growth of investee companies, institutional investors should develop skills and resources needed to appropriately engage with the companies and to make proper judgments in fulfilling their stewardship activities based on in-depth knowledge of the investee companies and their business environment and consideration of sustainability consistent with their investment management strategies.”

Japan Stewardship Code, FSA, 2020

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## External resources

Please see Principle 3 for details on information sources and Principle 4 for information on constructive engagements with investee companies.

## Internal resources and skills

When building the Investment Stewardship team, LGIM deliberately hired members with diverse experience and expertise: the result is a strong and cohesive set of professionals who possess complementary skills and experience in areas including stewardship, fund management, responsible investment, financial analysis, corporate governance, ESG, sustainability, public policy and regulation.

The Investment Stewardship team is predominantly based in London, but it has a global remit with staff also based in Japan and the US. While the Investment Stewardship team is independent of the in-house investment team, communication is maintained to share knowledge and information.

## Policies and compliance

Details on LGIM's stewardship policies are provided under Principle 1.

LGIM has strengthened its internal review processes in response to increasing client requirements, to ensure that stewardship processes and disclosures remain balanced and complete. We also work alongside our internal auditors to set suitable frameworks and standards against which an independent assessment could be effectively completed.

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Legal & General Investment Management  
One Coleman Street  
London  
EC2R 5AA

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